

Our Main Message on Congestion Revenue Rights (CRR) Issues---

According to FERC staff, one of the objectives of the panel is to understand state concerns that CRRs do not provide adequate protection of transmission for native load.

Idaho's concern for service to native load is rooted in the Idaho Code and remains the main priority of Idaho's regulated utilities and the Idaho Public Utilities Commission. **FERC faces the burden of proof** to demonstrate to states and their still fully-bundled utilities that the CRR element of Standard Market Design will continue to guarantee the current level of service and costs for native load.

The existing system ensures that native load receives the service it requires at a cost that is reasonable. Even if one can show on the blackboard how a new system MIGHT work, the burden of proof that native-load will be kept whole IN PRACTICE is on those proposing the change.

Additional Comments on CRR---

Background:

CRRs are not a mostly Western issue; they apply to all transmission users. But *it is an issue that is probably more important in non-retail access states like Idaho and Washington*, where we consider preferential treatment of native load to be still a vital goal of public policy.

The CRR issue is not mainly a technical transmission issue. Rather, it is an important resource allocation question that has been dealt with in one way in traditional regulation and that would be treated much differently under SMD. Good resource allocation, in transmission systems or elsewhere, depends on allocation of resources to their highest and best uses. SMD introduces a market test where none existed previously and thus prefers an allocation to those most willing to pay as the goal. Traditional regulation of the type still practiced in non-retail access states clearly defines service to native load as the highest priority use. There is a *policy conflict here that is not amenable to a purely technical solution.*

CRR is an issue we've been working on under another name through RTO West for two years and in INDEGO even before that. Previously the discussion was about the choice between physical and financial transmission rights, but only the terminology has changed. CRR remains a thorny issue, of the sort that needs to be worked out in a way that meets the needs of the Western Interconnection. We have not yet reached our own final conclusion.

Attempts by RTO West to deal only with physical rights ultimately proved intractable, so a compromise position was worked out that is a sort of hybrid. RTO West has proposed that conversion to RTO service (and conversion to FTRs) be optional. Once the cataloging process is complete and the question of whether it is possible to preserve the full benefit of flexibility is answered, the LSE (and its regulator) can decide whether native load would be protected if service is converted. SMD does not appear to allow this voluntary conversion option. Once this cataloging process is complete it may become clear that auctioning some rights is worth more to the LSE and the native-load than keeping them. *RTO West's method of dealing with this issue*

may provide the practical experiment that would show the true value of moving all the way to financial transmission rights in due time.

Specific CRR issues:

Our overriding and basic concern is that native load now has certainty of right to physical use and to a specific cost-based price for that use. Moving to a mandatory conversion to financial right means that both physical access and price may be uncertain. LSEs now use "network" service with flexibility to make changes in generation dispatch to maximize the benefit of hydrosystem flexibility. *It is not at all clear that the full benefit for native load can be translated into financial rights.*

FERC argues that native load is protected because the LSE can bid "infinity" to hold on to CRRs once they become subject to auction after some few years. *This may have tax implications* because the auction transaction would presumably move cash "from one pocket to the other pocket" of the LSE and would thus involve taxable revenue, i.e., the LSE buys the CRR at auction and gets the sale price back, but that sale price is revenue subject to tax at both the state and federal levels. This may counter the simple assertion that the native load is held harmless.

Finally, we pose the direct question that is of most interest to Idaho. When and how is FERC going to demonstrate that the proposed CRR system is as good as the existing system, e.g. how does FERC propose to prove that if a utility gives up its physical rights, financial rights will serve as well in meeting its native load obligations?